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FISCAL IMPACT STATEMENT

LS 7211

BILL NUMBER: HB 1001

NOTE PREPARED: Jan 12, 2015

BILL AMENDED:

SUBJECT: State Budget.

FIRST AUTHOR: Rep. Brown T

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☒ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: *State Budget*- This bill appropriates money for capital expenditures, the operation of the state, the delivery of Medicaid and other services, and various other distributions and purposes.

The bill specifies that the budget report must include a list of tax expenditure items.

The bill also specifies that for financial reporting purposes, the state's combined General Fund reserves includes the balances of the General Fund, the Medicaid Contingency and Reserve Account, the state Tuition Reserve Account, and the Counter-cyclical Revenue and Economic Stabilization Fund (less any outstanding loans).

The bill changes the name of the state Tuition Reserve Fund to an account within the state General Fund.

State Board of Accounts- This bill increases the fee for taxing units for State Board of Accounts audits from \$45 per day to \$175 per day. It specifies that the fee for state colleges and universities is the direct and indirect cost of an examination (now \$83 per hour). It also permits a state college or university to have its examination performed by an independent certified public accounting firm. The bill provides that fees collected for audits are to be deposited in the State Board of Accounts Trust and Agency Fund and makes the fund a dedicated fund that can be used to cover expenses of doing audits.

Major Moves 2020 Trust Fund- The bill permits the Budget Agency to make transfers from the state General Fund to the Major Moves Trust Fund each year of the biennium, and if such a transfer is made, allows the Budget Agency to make a transfer from the trust fund to the Major Moves Construction Fund.

Public-Private Agreements for Facility Projects- The bill permits a public-private agreement to be used for Potato Creek State Park and state-owned cell towers.

21st Century Research and Technology Fund- This bill provides for changes to the 21st Century Research and Technology Fund reward approval process.

Education Provisions- The bill replaces the K-12 School Performance Award with a teacher performance grant.

The bill makes changes to the Career and Technical Education Grant.

The bill makes changes to the total amount of school scholarship tax credits that may be awarded in a state fiscal year.

The bill provides an additional state tuition support grant of \$1,500 per pupil to a charter school, except an adult high school and changes charter adult high school funding.

The bill removes the Choice Scholarship cap of \$4,800 for students in Grades 1 through 8.

The bill permits the Commission for Higher Education to direct interfund transfers among state higher education scholarship programs.

Effective Date: June 30, 2015; July 1, 2015.

Explanation of State Expenditures: The bill has the following state expenditure impacts.

State Appropriations: The following summary is for state appropriations that are provided in this bill for FY 2016 and FY 2017.

Appropriations by Function	FY 2016	FY 2017	For the Biennium
General Government	\$562,353,820	\$565,631,299	\$95,015,549
Corrections	712,938,791	706,721,667	
Other Public Safety	251,505,556	244,318,731	7,238,010
Conservation and Environment	76,665,730	74,692,057	
Economic Development	90,212,188	88,271,149	32,968,292
Transportation	41,303,619	41,303,619	
FSSA Administration	64,169,956	63,749,430	
Medicaid	2,163,843,707	2,226,031,002	
Mental Health and Addictions	249,077,558	248,958,737	
Family Resources	131,196,795	131,065,230	
Aging Services	63,522,538	63,496,822	
Disability and Rehabilitative Services	121,168,979	121,076,164	
Department of Child Services	546,606,026	546,768,041	
Public Health	38,143,508	37,261,440	
Other Health and Human Services	31,191,079	30,238,575	20,000
State Student Assistance Commission	336,726,684	349,432,108	
Other Higher Education	1,495,482,446	1,500,929,849	
Education Administration	18,845,614	18,380,822	
Tuition Support	6,855,250,000	6,929,374,000	
Other Local Schools	224,171,444	220,636,039	
Teacher Retirement	816,500,000	841,000,000	
Other Education	6,907,131	6,780,121	20,350
Distributions *	161,429,233	253,583,087	
Total Operating	\$15,059,212,402	\$15,309,699,989	\$135,262,201
Construction - Higher Ed			\$334,184,252
Construction - Other			\$545,792,164
Total Construction	\$0	\$0	\$879,976,416
Total GF (Operating + Construction)	\$15,059,212,402	\$15,309,699,989	\$1,015,238,617
Lottery and Gaming Surplus; BIF	\$10,271,602	\$10,265,399	
Other Dedicated - Operating	1,437,869,429	1,302,508,964	
Other Dedicated - Construction			
Tobacco Settlement	122,845,653	119,651,534	
Federal	913,833,333	909,633,333	
Total (Dedicated and Federal)	\$2,484,820,017	\$2,342,059,230	\$0
Total - All	\$17,544,032,419	\$17,651,759,219	\$1,015,238,617
* Distributions total includes appropriations of \$100 M in FY 2016 and \$200 M in FY 2017 to the Major Moves 2020 Trust Fund from the code sections of the bill. The Distributions total does not include \$8.776 M for the Alcoholic Beverage Commission Gallonage Tax or \$203,688 for Motor Vehicle Excise Tax Replacement, which are appropriated annually in current statute but not in this bill.			

Excess Reserve- The bill changes the name of the State Tuition Reserve Fund to the State Tuition Reserve Account. Current law requires that when calculating excess reserves, the Office of Management and Budget (OMB) must exclude the balances in the State Tuition Reserve Fund. The bill requires that for the purpose of calculating the excess reserves, the OMB must include the balance in the State Tuition Reserve Account.

According to the combined reserve estimates reported by the OMB on December 18, 2014, the State Tuition Reserve Fund would constitute \$300 M of the total \$2.17 B in combined state reserves at the end of FY 2015. Including the State Tuition Reserve Account in the calculations of excess reserves is estimated to result in distributions of \$215 M from state reserves in FY 2016. The Pension Stabilization Fund and the funding of automatic taxpayer refunds will each receive \$107.5 M. As a result of the distribution out of the state reserves, the balance carried forward in reserves will decrease by \$215 M. Any impact in future years will depend on various factors including the amount the State Tuition Reserve Account balance.

State Board of Accounts (SBOA)- State colleges and universities will each incur an additional examination expense of \$132,100 on average, for a total increase of about \$1.1 M, resulting from a change in the billing rate for examinations. Also, the State Examiner is to allow state colleges and universities to engage private examiners for examinations. If a private examiner is engaged, the costs of examination would increase by an indeterminate amount, and use of a private examiner would reduce the amount received by the SBOA from examination fees. [The cost increase was estimated based on SBOA average audit days for examinations of universities and colleges, current statutory rate of \$45 per day per examiner, and the SBOA's estimated full cost of \$83.43 per hour.]

Major Moves 2020 Trust Fund- The bill allows the Budget Agency to transfer not more than \$100 M from the state General Fund to the Major Moves 2020 Trust Fund in FY 2016, and another transfer of not more than \$200 M from the state General Fund to the Major Moves 2020 Trust Fund in FY 2017. The amounts are included in the appropriation summary table above. If the Budget Agency makes either of these transfers in FY 2016 or FY 2017, then the Budget Agency may transfer up to \$300 M of those transferred funds to the Major Moves Construction Fund.

The Major Moves 2020 Trust Fund has received one transfer from the state General Fund in the amount of \$200 M in 2013. A second transfer of up to \$200 M was authorized but has not taken place as of January 9, 2015.

Public-Private Agreements for Facility Projects- This bill allows for public-private agreements for the Potato Creek State Park and state-owned cell tower projects to be entered into by the Indiana Finance Authority (IFA). The bill also provides that the IFA may enter into a public-private agreement for a facility project if the General Assembly provides authorization by statute. The fiscal impact of these public-private agreements would depend on the circumstances of each proposed project.

Public-private agreements can provide for the sharing of resources and project risks with the private sector, and provide for access to private-sector financial markets. These agreements may result in the following fiscal implications depending on the contract: the lease of a state asset could receive more money than would have been generated by long-term net revenues; the transfer of risk to another party could result in a premium paid by the state; the assignment of future revenues to entities that would have accrued to the state absent the agreement; and capital and operating leases that could obligate the state to long-term budget commitments.

21st Century Research and Technology Fund (21 Fund): This bill changes the approval procedure for

investments from the 21 Fund. The State Budget Agency (SBA) will no longer have the authority to deny or modify a loan or grant from the 21 Fund recommended by the Indiana Economic Development Corporation (IEDC). The SBA will review each recommendation to verify and approve available funding. The bill also requires the IEDC to only periodically report to the State Budget Committee on activity within the 21 Fund. Current law requires all recommendations to be reviewed by the State Budget Committee. This provision may result in an indeterminable amount of additional investments made from the 21 Fund.

The 21 Fund had a balance of \$71.2 M as of December 19, 2014. The 21 Fund is administered by the IEDC.

Education Provisions-

Adult Learner Charter High School- The bill increases the current \$6,600 grant for students attending an adult learner charter high school (ALCHS) to \$6,800. The impact would depend on the number of students that would attend an ALCHS. It is projected that 5,100 students in FY 2016 and 6,500 in FY 2017 will attend an ALCHS, which would result in a cost of about \$1 M in FY 2016 and \$1.3 M in FY 2017.

Charter School Grant- The bill provides a grant of \$1,500 per charter school student to the charter schools, excluding virtual charter schools. In the fall of 2014, there were about 24,869 students enrolled in charter schools, which could result in an increase in state General Fund expenditures of about \$37.3 M.

The following table reports the September nonvirtual charter school ADM from 2011 to 2014.

Year	Nonvirtual Charter School ADM
2011	23,502
2012	26,046
2013	23,635
2014	24,869

Charter School Scholarship Cap- Of the 29,148 Choice scholarships for FY 2015, 6,378 are limited by the \$4,800 cap for students enrolled in Grades 1 through 8. If the cap is removed, the increased cost for FY 2016 would be about \$3.8 M. The increase in the future would depend on the number of scholarships that would have been limited by the cap.

Teacher Performance Awards- The bill creates the Teacher Performance Grant. Based on the most recent available information, the fiscal impact of the new grant would be about \$26.6 M annually.

Career and Technical Education Grant- The bill replaces the current Career and Technical Education Grant in the tuition support formula with a new grant starting in FY 2017. The new formula is based on student enrollment and the performance of students. The fiscal impact for the new formula is an increase in the projected expenditures for the Career and Technical Education Grant of about \$2.9 M. [The current formula is projected to spend about \$105.1 M in FY 2017, and the new formula would spend about \$108.0 M.]

National Guard Scholarship- Requiring the National Guard Tuition Supplement Grant and the grant under the National Guard Scholarship Extension Program to be the full tuition to attend a state educational institution instead of the portion after other awards have been applied should have no fiscal impact. The

change will provide better information on the full cost of the program

Transfers- The bill permits the Commission for Higher Education to direct interfund transfers among state higher education scholarship programs, which should make transfers between the funds easier and make the transfer capability more uniform between the Higher Education Awards Fund, the Freedom of Choice Awards Funds, and the 21st Century Scholars Award Fund. The provision should not increase state expenditures.

Explanation of State Revenues: *State Board of Accounts-* The bill would direct money that is currently deposited into the state General Fund into a dedicated fund for use by the SBOA. On average from FY 2010 to FY 2014, the SBOA examination fees deposited in the state General Fund were \$3.1 M per year. Revenue from the typing fee will continue to be placed into the dedicated fund for use by the SBOA.

The examination fee revenue would increase under the bill, by changing the examination fee basis for state colleges and universities and by increasing the daily fee for taxing units and soil and water conservancy districts. The SBOA estimates the increase in revenue at about \$6.9 M per year for FY 2016 and FY 2017.

Education Provisions-

School Scholarship Tax Credit- The bill increases the School Scholarship Tax Credit cap from \$7.5 M to \$12.5 M in FY 2016, and for years thereafter it is the greater of 120% of the amount of credit awarded in the previous fiscal year or \$12.5 M. To the extent that the credit claimed in FY 2016 and thereafter is above \$7.5 M, the bill would result in loss of revenue to the state General Fund. The table below shows the tax credits claimed annually by taxpayers.

Tax Year	Total Number of Claims	Total Amount Claimed
2010	109	\$0.2 M
2011	565	\$1.4 M
2012	922	\$2.4 M
2013	1,936	\$3.4 M

Additionally, DOR reports that as of December 12, 2014, \$2.9 M in credits have been claimed in FY 2015.

Explanation of Local Expenditures: *State Board of Accounts-* Taxing units and soil and water conservancy districts will have increased examination expense of about \$5.9 M. The median additional expenditure is estimated at \$2,079. The table below shows the estimated additional fee by unit type.

Taxing Unit Type	Total Increase by Type	Increase Per Unit	Taxing Unit Type	Total Increase by Type	Increase Per Unit
Airport Authority	\$34,565	\$2,161	School	2,163,082	6,419
Area Library Serv. Auth.	7,781	3,891	Small Claims Court	22,307	4,462
Building Authority	9,099	1,138	Soil/Water Conservation Dist.	34,101	371
City	786,636	6,667	Solid Waste Mgt District	63,892	876
County	1,057,027	11,490	Town	900,209	1,997
Fire Protection District	39,234	677	Township	506,504	503
Library	262,932	1,065	Total/Median	\$5,898,088	\$2,079
Sanitary Districts	10,719	5,360			

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources: Paul Joyce, State Examiner, testimony to the Legislative Council Audit and Financial Reporting Subcommittee, August 18, 2014, transmittal letter to Mr. Brian Bailey, Director, State Budget Agency, August 15, 2014, and electronic communication on December 31, 2014.
SBA Surplus Statement, December 18, 2014:

http://www.in.gov/sba/files/rev_forecast_20141218_Combined_Statement.pdf
Department of Education databases.

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